

CITY OF PATON

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2013 THROUGH JULY 31, 2014**

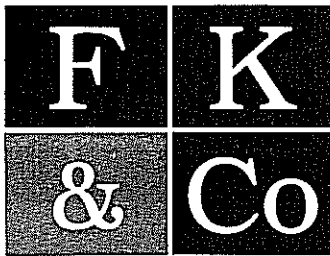
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City of Paton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2014)</u>		
Joe Binder	Mayor	Jan 2016
Diane Hanlon	Council Member	Jan 2016
Kevan Hoefling	Council Member	Jan 2014
Steve Joy	Council Member	Jan 2016
Mike Mentzer	Council Member	Resigned
Casey Kaufman	Council Member	Jan 2014
Matt Fox	Council Member	Jan 2014
Mary Phillips	City Clerk	Indefinite
<u>(After January 2014)</u>		
Joe Binder	Mayor	Resigned
Brad Robey	Mayor	Jan 2016
Steve Burrell	Council Member	Jan 2016
Diane Hanlon	Council Member	Resigned
Kevan Hoefling	Council Member	Jan 2018
Steve Joy	Council Member	Jan 2016
Casey Kaufman	Council Member	Jan 2018
Matt Fox	Council Member	Jan 2018
Mary Phillips	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed an agreed-upon procedures engagement of the City of Paton pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide certain minimum oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Paton for the period August 1, 2013 through July 31, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2014 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.

9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Paton, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Paton, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paton and other parties to whom the City of Paton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Paton during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

December 15, 2014

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements, ending balances by fund and a budget vs actual comparison, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk's report should show a budget vs actual comparison. The City Council should review and approve the Clerk's report monthly.

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund. We noted that this requirement was not met by the City for the meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

(F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

(G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (H) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for property tax relief. All of the local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are in compliance with the provisions of the referendum.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (J) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended July 31, 2014 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

- (K) Insurance Property Tax Levy – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the cost associated with liability insurance coverage. However, the costs incurred by the Enterprise Funds for liability insurance coverage should be charged to each Enterprise Fund instead of the tax levy for liability insurance coverage as provided for in Chapter 384.12(17) of the Code of Iowa.

Recommendation – Cost incurred for liability insurance coverage for the Enterprise Funds should be charged to the Enterprise Funds.

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (L) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also the budget showed two funds, Debt Service and the Permanent Fund, which actually do not exist on the City records.

The City did not properly budget for local option sales tax receipts even though the City has received these funds for many years.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should establish procedures to review the budget preparation and related documents to ensure accuracy.

- (M) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...”. The City’s Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

- (N) Financial Condition – At June 30, 2014, the City had deficit balances of \$32,386 and \$13,000 in the General and Debt Service Funds, respectfully.

Recommendation – The City Council should investigate alternatives to eliminate these deficits and return the funds to a sound financial position.

- (O) Bank Reconciliations – Although monthly bank reconciliations were performed, the reconciliations contained outstanding items that were inaccurate.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (P) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

- (Q) Payroll – The following were identified:

- Timesheets tested did not include evidence of supervisory approval.
- Timesheets were not maintained for some employees.
- The salary amount paid to one employee was different than the salary resolution amount approved by the City Council.
- The City did not prepare any IRS Forms 1099-Misc. for the year ended December 31, 2013. We noted that the City should have issued Forms 1099-Misc. for the year ended December 31, 2013.
- The Mayor Pro-tem pay was not established by ordinance, as required by Chapter 372.13(8) of the Code of Iowa.

Recommendation – Timesheets should be prepared by all personnel. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. Also the City should file IRS Forms 1099-Misc. when applicable. The City Council should also update the ordinance authorizing the wages for the Mayor Pro-tem pay.

- (R) Employee Benefits Tax Levy – The City levies property taxes for employee benefit purposes. It appears the City included employee benefits related to employee salaries paid from the Enterprise, Sewer and Gas Funds in its property tax levy. Per Iowa Administrative Code 545, Ch. 4, the employee benefits levy is only for employee benefits related to employee salaries from the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – When calculating the employee benefits levy, the City should exclude employee benefits related to salaries paid from the Enterprise, Sewer and Gas Funds.

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DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (S) Disbursements – Certain invoices were not approved by the City Council. Also, invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and approved by the City Council.

- (T) Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

- (U) Sales Tax Refunds – The City has not applied for and received sales tax refunds on completed projects. The City has also not issued an exemption certificate for the contractor required by Chapter 423.3(80)(b) of the Code of Iowa.

Recommendation – The City should apply for sales tax refunds on all completed contracts and for all future contracts the City should issue exemption certificates as required by Chapter 423.3(80)(b) of the Code of Iowa.

- (V) Sewer Revenue Note – The City was unable to provide documentation regarding the requirements of the Sewer Revenue Note with the USDA. As a result, the City was unable to provide to us the continuing compliance provisions in relation to this note. This note was fully paid off in fiscal year 2014.

Recommendation – The City should retain documentation relating to any bonds or notes on all future debt issuances.

CITY OF PATON

DETAILED RECOMMENDATIONS

For the period August 1, 2013 through July 31, 2014

- (W) Employee Benefits – In lieu of providing a group health insurance policy, the City Council approved providing up to \$3,300 to reimburse an individual employee for health insurance premiums and/or deductibles. These reimbursements were not included as compensation to the employee and not included in their W-2.

We were unable to review the information necessary to determine if these reimbursements were in compliance with federal requirements and the Affordable Care Act.

Recommendation – The City should take the necessary steps to ensure the proper reporting of these reimbursements.

- (X) Accounting Records – The City's accounting records are not materially accurate. Instances of these inaccuracies are as follows:

- On the trial balance, the beginning cash balances for all funds as of July 1, 2014 is \$0. The July 1, 2014 cash balance for each fund should agree to the June 30, 2014 cash balance for each fund.
- On the general ledger, road use tax receipts are recorded as either a liability or a reduction of a disbursement. All road use tax receipts should be recorded as a receipt in the Special Revenue, Road Use Tax Fund.

Recommendation – The City should implement procedures to ensure the accounting records are accurate and properly reflect the financial activity of the City.

- (Y) Special Revenue Levies – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City credited the emergency tax levy to the General Fund rather than establishing a separate fund.

The City also levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, and recorded the property tax collections in the General Fund rather than establishing a separate fund as required.

Recommendation – The City should establish separate Special Revenue Funds for these special tax levies, as required.